

Privatizing Maintenance of Municipally-Owned Housing

Odessa, Kharkiv, Kiev, and Lviv, Ukraine

Background

Until recently, maintenance of the vast municipally-owned housing stock in Ukraine was provided by small, state enterprises called *Zheks*. Despite large municipal subsidies, the quality of maintenance service remained low. When privatization of municipally-owned housing was introduced in 1992, poor maintenance of common areas diminished the value of housing assets and served as a disincentive to ownership. Housing sector assessments performed in 1992 indicated that municipalities could no longer afford to subsidize *Zheks* and that new homeowners were willing to pay more for high quality maintenance. To reduce costs and improve housing maintenance, Ukrainian municipal governments tested the feasibility of private maintenance of the public and private housing stock.

Innovation

Ukrainian cities fostered competition through market-based bid solicitation for private housing maintenance. In 1994 and 1995 the practice was implemented in Odessa (population 1.1 million), Kharkiv (population 1.6 million), and Kiev (population 2.6 million). Cities were trained in transferring housing management responsibility to private sector companies. They held competitions to select private contractors to maintain packages of 1,500 to 2,000 housing units. Changes in resident satisfaction were assessed through “before and after” attitude surveys. Based on positive demonstration results, the practice was expanded across Ukraine. Regional seminars introduced the concept to housing officials and professionals, forming a nationwide information network. Model documents, such as bidding procedures and contracts containing results-oriented performance standards, were widely disseminated, and a “How To” manual was developed to assist local officials in implementation. No national legal reforms were required to privatize housing management and maintenance; local governments adopted enabling resolutions. No additional local or state funds are required, as contractors are funded at the same level as the *Zheks* and are profitable because they are typically more efficient. Implementation of this practice requires two to four months, allowing sufficient time to publicize and conduct the competition.

Results

The innovative practice has been very successful to date: over 80,000 units are now privately maintained. Another 60,000 are expected to be privately maintained in the near future, including over 22,000 units in Kiev, 8,000 in Lviv, 18,000 in Kharkiv, and 1,500 in Odessa. Other, smaller cities with populations between 100,000 and 500,000 have also implemented the practice with equally impressive results. The condition of common areas in privately managed housing has improved, and municipalities have realized the economic benefits of better housing maintenance at no additional cost. Housing assets have been preserved through the introduction of preventive maintenance, leading to higher tenant morale, and the rate of housing privatization has increased. This practice has introduced the concept of protecting the value of housing assets through high quality maintenance, promoted the perception of housing maintenance as a profitable and respectable business, and facilitated the development of an important new business sector. This privatization practice is replicable across the NIS and Central and Eastern Europe.

Summary

To improve the maintenance of municipally-owned housing and encourage housing privatization, Ukrainian cities awarded contracts for housing maintenance to private sector contractors through a competitive process. As a result, cities have realized the economic benefits of better housing maintenance at no additional cost, and the rate of housing privatization has increased.

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